CalPERS

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AGENDA ITEM 10a

TO: MEMBERS OF THE INVESTMENT COMMITTEE

I. SUBJECT: Senate Bill 1550 (Florez)—As Introduced February 22, 2008

Corporate Governance: Climate Change Disclosure

Sponsor: Ceres

II. PROGRAM: Legislation

III. RECOMMENDATION: Support

IV. ANALYSIS:

Summary

SB 1550 would require the Secretary of State, in consultation with the investment community, to establish an investor-based climate change disclosure standard for use by publicly held companies doing business in California. The climate disclosure standard would provide guidance on disclosure of climate change risks and opportunities. The climate change disclosure standards established by the Secretary of State should at a minimum include the elements found in the *Global Framework for Climate Risk Disclosure* which CalPERS participated in developing.

Background

The Investment Committee first approved the Corporate Governance Environmental Strategic Plan on February 14, 2005 and directed staff to sign onto the Investor Network on Climate Risk's (INCR) Call for Action on May 16, 2005. While the Environmental Strategic Plan has evolved, staff has worked diligently to carry out the objective which is to improve environmental data transparency and timely disclosure. These efforts have included:

1. Supporting The Carbon Disclosure Project

   CalPERS is a member and signatory – An annual questionnaire is sent to companies on behalf of institutional investors representing $41 trillion of assets under management requesting information on the business implications of climate change and the companies' greenhouse gas emissions.

2. Participating in the Investor Network on Climate Risk

   CalPERS has been working to support INCR's Call for Action, a 10-point plan that calls on U.S. companies, Wall Street firms and the Securities and Exchange Commission (SEC) to intensify efforts to provide investors with comprehensive analysis and disclosure about the financial risks presented by climate change.

   In February 2008, CalPERS signed onto the new INCR Climate Change Action Plan. The action plan calls for a series of specific steps by investors to address the growing risks and opportunities from climate change. The nine goals include policy actions aimed at the Securities and Exchange Commission (SEC) and Congress, engagement with companies to improve their disclosure and responses to climate change, minimizing climate investment risks and maximizing climate-related investment opportunities.

3. Participating in the development of the Global Framework for Climate Risk Disclosure

   The Climate Risk Disclosure Initiative was launched in May 2005 with the objective of improving corporate disclosure of the risks and opportunities posed by global climate change. The steering committee, of which CalPERS was a member, developed and launched the Global Framework for Climate Risk Disclosure (Global Framework) (Attachment 1) on October 11, 2006. The Global Framework articulates the information required by investors to analyze the risks and opportunities of climate change that companies face, and determines if companies are taking appropriate steps to address those risks and opportunities. It also encourages standardized reporting of the information.

   The four elements of disclosure highlighted in the Global Framework are:
   • Total historical, current, and projected greenhouse gas emissions
   • Strategic analysis of climate risk and emissions management
   • Assessment of physical risks of climate change
   • Analysis of risk related to the regulation of greenhouse gas emissions

4. Revising CalPERS Principles of Accountable Corporate Governance

   In order to support the Corporate Governance Environmental Strategic Plan's objective of improving environmental data transparency and timely disclosure, an environmentally focused principle was added to CalPERS

Core and Global Principles of Accountable Corporate Governance. The principle addresses environmental disclosure and reads as follows:

"To ensure sustainable long-term returns, companies should provide accurate and timely disclosure of environmental risks, such as those associated with climate change. Companies should apply the Global Framework for Climate Risk Disclosure when providing such disclosure."

5. Company Engagement

   CalPERS engages companies in the airline, auto, utilities, and oil and gas industries that are underperforming relative to their industry peers and lack disclosure on the four elements highlighted in the Global Framework for Climate Risk Disclosure.

Proposed Changes

SB 1550 would require the Secretary of State, in consultation with the investment community, to establish an investor-based climate change disclosure standard for use by publicly held companies doing business in California. The climate disclosure standard would provide guidance on disclosure of climate change risks and opportunities. The climate change disclosure standards established by the Secretary of State should at a minimum include:

- A statement of greenhouse gas emissions,
- A climate change statement from participating companies,
- A statement on emissions management,
- A description of corporate governance actions relating to climate change and climate risk,
- A comprehensive assessment of physical risks, and
- An analysis of regulatory risks to aid economic forecasting.

All six of these disclosure standards are contained in the Global Framework for Climate Risk Disclosure.

Issues

1) Arguments in Support

   Proponents claim that SB 1550 will improve corporate responses to climate change and show the SEC that disclosure is useful to investors and is not burdensome to companies.

   Organizations in Support: Ceres (sponsor)

2) Arguments in Opposition

Opponents argue that SB 1550 is premature in that the California Air Resources board (ARB) is currently working on the scoping plan for implementing AB 32 (Nunez) of 2006 and that assessment of risks or opportunities prior to regulations under AB 32 or federal law limiting emissions would be misleading to investors.

Organizations in Opposition: California Chamber of Commerce; California Council for Environmental and Economic Balance; California Manufacturers & Technology Association

3) SEC Rules on Climate Change Disclosure

Securities and Exchange Commission (SEC) rules stipulate that "specific known trends, events or uncertainties that are likely to have a material effect on a company's financial condition or operating performance must be discussed as part of a company's SEC filings." Still, SEC rules do not clearly require such disclosures on global warming and carbon dioxide emissions. This results in nondisclosure and uneven disclosure by companies, making it extremely difficult for investors to assess climate risk in their investments.

4) Legislative Policy Standards

The Board's Legislative Policy Standards do not directly address the issues in SB 1550. However, the provisions of this bill are consistent with the objective of the Board's Corporate Governance Environmental Strategic Plan and therefore staff recommends the Board adopt a support position on SB 1550.

V. STRATEGIC PLAN:

This is not a specific product of the Annual or Strategic Plans, but is part of the regular and ongoing workload of the Office of Governmental Affairs.

VI. RESULTS/COSTS:

As a long-term investor, CalPERS believes that disclosure by companies of environmental issues can assist investors in evaluating risks and opportunities

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